

VZCZCXRO7177
RR RUEHBZ RUEH DU RUEHJO RUEHRN
DE RUEHMR #0510/01 2470834
ZNR UUUUU ZZH
R 040834Z SEP 07
FM AMEMBASSY MASERU
TO RUEHC/SECSTATE WASHDC 3307
INFO RUCNSAD/SADC COLLECTIVE
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEHMR/AMEMBASSY MASERU 3702

UNCLAS SECTION 01 OF 02 MASERU 000510

SIPDIS

SIPDIS

DEPT ALSO FOR AF/S, AF/EPS, AF/EX

E.O. 12958: N/A

TAGS: [ECIN](#) [ECON](#) [EINV](#) [ETRD](#) [EAID](#) [ELAB](#) [AMGT](#) [LT](#)

SUBJECT: LESOTHO AUGUST 2007 ECONOMIC ROUNDUP: FOOD INFLATION AND
TROUBLE FOR TEXTILES?

REF: A) Maseru 491; B) Maseru 403

MASERU 00000510 001.2 OF 002

11. SUMMARY:

- Rising Food Prices Lead Rising Inflation
- Responses to Food Insecurity Crisis
- GOL Signs \$10 Million Loan with Arab Development Bank
- AGOA Review: Trouble for Textiles?
- Charge Presents Equipment to Aid Labor Standards

END SUMMARY.

Rising Food Prices Lead Rising Inflation

12. With Lesotho's Consumer Price Index (CPI) basket heavily weighted towards food prices, a sharp decline this year in domestic cereal production, coupled with rising fuel prices, has put strong upward pressure on the nation's overall inflation rate. The food component of Lesotho's CPI jumped into the double digits in the past twelve months, averaging 11.1% and peaking at 15.2% in April. Food inflation pulled up the overall inflation rate, which averaged 6.6% over the past twelve months and peaked at 8.1% in April, although these rates eased slightly in May. These inflation developments are likely to contribute to the country's ongoing food insecurity crisis.

Responses to Food Insecurity Crisis

13. As Lesotho's food insecurity continues (ref B), the Government of Lesotho, donors, and NGO organizations continue to mass resources to prevent a humanitarian crisis. On August 2, the UN launched a flash appeal calling for \$18 million to assist those hardest hit by drought to recover and regain self sufficiency (ref A). The UN Food and Agricultural Organization will provide farmers with vouchers to purchase seeds and fertilizers. The UN system, through its Central Emergency Response Fund (CERF), has pledged \$3.8 million to assist vulnerable groups.

¶4. In response to the food crisis, the U.S. Government (USAID/FFP) has thus far pledged approximately \$16.5 million in commodities through pipelines such the World Food Program (WFP) and the C-SAFE consortium (World Vision, CARE, and Catholic Relief Services). Irish Aid and DFID have committed to financing water sanitation and nutritional data initiatives through UNICEF Lesotho. While the priority food and agricultural needs cited in the UN flash appeal appear to be mostly financed (largely by the United States), other needs such as certain water sanitation initiatives are not yet fully funded. The Government of Lesotho has allocated M 45 million (approximately \$6.4 million) to an emergency fund which will provide a 30% subsidy on agricultural inputs needed for the upcoming planning season such as seeds, fertilizer, and irrigation equipment.

GOL Signs \$10 Million Loan with Arab Development Bank

¶5. In July 2007, the Government of Lesotho (GOL) signed a loan agreement for M 70 million (approximately \$10 million) from the Arab Bank for Economic Development in Africa (BADEA). This loan will co-finance the construction of the Metolong Dam, which will supply water to lowlands towns such as Maseru and Berea where industrial and residential water demands are fast increasing. Other donors for the dam and water delivery project are the United States (through the Millennium Challenge Corporation), Kuwait, Saudi Arabia, and OPEC. The GOL signed a loan agreement with Kuwaiti Government for four million Dinar (approximately \$14.3 million) in March 2007. The GOL has not yet signed loan agreements with Saudi Arabia and OPEC, and during the BADEA loan signing ceremony, Minister of Finance Thahane urged these remaining donors to expedite their borrowings procedures. The Millennium Challenge Corporation will fund \$164 million of water sector initiatives in Lesotho over the coming five years.

MASERU 00000510 002.2 OF 002

AGOA Review: Trouble for Textiles?

¶6. Textiles, a critical sector of Lesotho's economy, remain under threat from growing international competition. Lesotho's textile industry supplies much of the nation's foreign currency reserves as well as provides jobs for over 40,000 workers. Textile exports under the African Growth and Opportunity Act (AGOA) account for approximately 90% of Lesotho's total exports to the United States. Though there was a 21% increase in Lesotho's textile exports to the United States between 2006 and 2007, certain months experienced precipitous declines in orders. The greatest slumps were the months of February and June, during which the value of exports under AGOA declined by 52% and 20% respectively in comparison to the same months during the previous year.

¶7. Local industry representatives cite global competition from Cambodia and Bangladesh, as well as unfavorable exchange rate fluctuations, as the primary reasons for these declines. An unresolved post-election political impasse, which led to work stoppages and numerous security incidents in mid-2007, was harmful to production and product delivery. The global competitiveness of Lesotho's textiles is expected to take further blows as increasing numbers of less developed countries acquire AGOA-like trade preferences with the United States.

Charge Presents Computer Equipment
to Aid Labor Standards Inspections

18. On August 23, the Charge d'Affaires and the International Labor Organization (ILO) handed over equipment including computer servers and printers to the Improving Labor Systems in Southern Africa (ILLASA) project under the Ministry of Labor and Employment. This equipment was donated to bolster the capacity of the Labor Ministry to investigate labor code violations. ILLASA is funded by the U.S. Department of Labor. In his remarks, Charge Murphy congratulated the Ministry for its progress in strengthening its capacity to enforce national labor laws and the principals of the ILO's "Declaration on Fundamental Principles and Rights at Work." He stressed that labor protection is vital in open economies which seek a favorable investment climate.
MURPHY